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RUEHMN/AMEMBASSY MONTEVIDEO 3634
RUEHQT/AMEMBASSY QUITO 4024
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RHEHNSC/NSC WASHINGTON DC
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STATE FOR WHA/AND
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ENERGY FOR CDAY AND SLADISLAW

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SUBJECT: BOLIVIA AND URUGUAY SIGN ENERGY AGREEMENT

REF: 2005 LA PAZ 3065

¶1. Summary: The Presidents of Uruguay and Bolivia signed an agreement to strengthen energy cooperation between the two nations on March 13. The agreement provides for the future sale of Bolivian natural gas, thermoelectricity, and liquid petroleum gas (LPG) to Uruguay. Although the agreement expresses positive political will, it will be difficult to implement due to the high costs of pipeline construction and the lack of investment in Bolivia's natural gas and LPG sectors. End summary.

¶2. President Evo Morales of Bolivia and President Tabare Vasquez of Uruguay signed an agreement to strengthen bilateral energy cooperation on March 13 in La Paz. The declaration provides for the sale of Bolivian natural gas to Uruguay via a pipeline through Argentina, the sale of thermoelectricity generated in Bolivia to Uruguay, and the sale of liquid petroleum gas (LPG). According to press reports, a binational commission will be created to study the pipeline design and establish sales volumes and prices for the gas.

¶3. According to the Bolivian Minister of Hydrocarbon's statements to the press, the pipeline to Uruguay would be based on the Pipeline to Northeast Argentina (GNEA) that was previously designed by Bolivia and Argentina with a capacity of 20 million cubic meters per day. This amount would be in addition to Bolivia's current commitment of 7.7 million cubic meters of gas per day to Argentina. Uruguay's gas consumption is fairly small in comparison at 300,000 cubic meters per day. Exporting LPG would require amending Bolivia's regulations on the sale of liquid fuel, which prohibit the export of LPG. Press reports indicate that the GOB intends to carry out this revision.

¶4. Comment: The accord between Uruguay and Bolivia expresses both nations' desire to forge stronger relations between themselves and with Paraguay to balance the power of Brazil and Argentina in Mercosur, but presents several practical problems that will impede its implementation. The construction of a pipeline from Bolivia through Argentina to

Uruguay would require an investment of around USD 1 billion, which would only be undertaken by investors if there were assurances that there would be sufficient gas to flow through the pipeline. To be economically worthwhile, the pipeline would have to be designed to supply Argentina en route to Uruguay, which only consumes a relatively small amount of gas. Bolivian producers are currently producing at their maximum, which is just barely enough to meet current commitments. Producing another 20 million cubic meters per day would require significant investment in Bolivia's hydrocarbons sector, in which investment has practically halted since the implementation of the hydrocarbons law in May 2005. The plan to export LPG is also problematic -- Bolivia itself suffered from a severe LPG shortage in 2005 that resulted in mass demonstrations due to misguided domestic economic policies (reftel). End comment.

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